

KAZAKSTAN COMMUNITY LOAN FUND

SEMI-ANNUAL REPORT:

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TABLE OF CONTENTS

Pages

Summary	2
Program Accomplishments	2
Key Program Indicators (Table 1)	2
Summary Portfolio Outreach (Table 2)	3
Program Activities	3
Shimkent Office	3
Rural Outreach Activities	4
Consulting and Outreach	4
Capital Funds Development	4
NGO Trainings	5
Internal Training Activities	5
General Issues	5
Financial Management	6
Financial Statement (Table 3)	6
6-Month Comparative Analysis (Table 4)	7
Balance Sheet (Table 5)	8
Future Activities	9

SUMMARY OF TABLES

Table 1, Key Program Indicators	2
Table 2, Summary of Portfolio Outreach	3
Table 3, Financial Statement	6
Table 4, Income and Expenses	7
Table 5, Balance Sheet	8

SUMMARY

The last reporting period was very busy with the expansion of the Shimkent office, the design and implementation of a new incentive system for Enterprise Agents, and the finalization of a commercial line of credit for KCLF. In addition, KCLF began its rural outreach activities in the areas surrounding Taldykorgan and has institutionalized a system of outreach for this new territory. KCLF was also asked to make a keynote presentation at a workshop on non-banking financial activities and organized two international seminars. In July, KCLF hired a new Deputy Director to supervise its expansion activities.

PROGRAM ACCOMPLISHMENTS

Key Program Indicators

Table one below provides a summary of KCLF's projected third quarter indicators compared to its actual performance. This comparison quickly reveals how well KCLF is performing financially and the significant measures it has taken to becoming financially self-sufficient. In terms of profitability, both offices are outperforming their targets. As of the end of October, the Shimkent branch reached operational break-even. Efficiency indicators also indicate the ability of both offices to expand their services while maintaining costs.

In addition to covering its costs, the Taldykorgan office also contributed \$126,000 of retained earnings into lending capital during the year. Given this level of activity, the program is well positioned to continue its growth and performance beyond donor funding.

The one area where growth has been less than projected is number of clients and outstanding portfolio. This is a result of late start-up in Shimkent (the end of February) as well as Taldykorgan's shift to rural areas outside the city where clients are further apart, taking more time to identify and form groups.

Table 1
Key Program Indicators

	PROJECTED THRID QUARTER, 2000	As of September 2000
Number of Loans Outstanding		
Taldykorgan	3,600	2,605
Shimkent	1,140	712
Outstanding Loan Portfolio		
Taldykorgan	792,404	570,819
Shimkent	171,475	115,116
Portfolio at Risk	5%	3.1%
Loan Loss Rate/Arrears	1%	1.5%
Return on Operations*		
Taldykorgan	127%	154%
Shimkent	50%	90%
Operating Efficiency ** (consolidated)	28%	18%

- Including provisions, depreciation, and the cost of funds.

** Calculated based on total administrative expenses (including salaries, rent, utilities, depreciation, etc.) for the six-month period/average loan portfolio for the period.

Portfolio Outreach

As indicated in Table 2, KCLF continues to disburse a large number of small loans every month totaling over 17,000 loans as of September 2000. During the last two quarters, over \$1.5 million was disbursed through 6,700 loans. Approximately \$290,000 is disbursed every month through 1,000 new and repeat loans. Disbursements continue to increase every month although there is seasonable demand creating clear growth trends. Strong demand occurs in April/May, August, and November/December. Therefore, during the last quarter of 2000, KCLF expects to add another 500 new clients.

Table 2
Summary Portfolio Outreach
October 1997 – September 2000

PORTFOLIO/OUTREACH	AMOUNT/NUMBER
Number of active loans (as of Oct. 1997)	0
Number of active loans (as of September 2000)	3,317
Number of loans disbursed (cumulative)	17,000
Amount Disbursed (cumulative)	\$4 million
Average Monthly Disbursed	\$290,000
Arrears (unpaid balance on loans with payments more than 30 days overdue)	\$10,450
Percentage Female Clients	8,1%
Number of Staff (including Shimkent)	42
Effective Annual Interest Rate	56%
Local, Annual Bank Lending Rate	19%
Local Inflation Rate (Source: NBK)	10%

PROGRAM ACTIVITIES

Shimkent Office

The Shimkent office began consolidating and expanding its activities during the reporting period. Four additional loan officers were hired and disbursements continued to grow. The office disburses around 300 loans a month through \$65,000, with an average monthly growth of 42 percent. To date there has been no delinquency.

In October, the office began covering its costs through earned interest. This has been the result of eight months of lending and is a tribute to KCLF's skills and ability to efficiently duplicate its systems and establish clear guidelines for hiring and training new staff. As a result of this work, KCLF has written a *Branch Development Manual* that will outline the process of setting up new branches and the roles and responsibilities of all staff.

In July, the Shimkent office received its new Peace Corps Volunteer (PCV) to work for the next two years. This is a young man with an international finance background. As in the Taldykorgan office, the PCV will conduct random client site visits to determine program impact and proper use of loans.

Rural Outreach Activities

In May, the Taldykorgan office held a staff workshop to strategize its outreach to rural areas outside the city of Taldykorgan. This workshop produced an implementation plan and incentive system to expand its credit program to these areas. A new oversight position was also created, the Enterprise Agent Monitor, to supervise and provide hands-on guidance for these activities.

One of the interesting outcomes of this effort has been the identification of more manufacturing clients in the rural areas. This is due to a great number of mini-mills and mini bakers in these areas to service the surrounding villages and towns. One of KCLF's 2000 goals is to support larger numbers of manufacturing businesses; this expansion will offer the program new opportunities in this regard.

Consulting and Outreach

In July, KCLF's Program Director was asked to be the key speaker at a workshop organized by Winrock International. This workshop was devoted to the discussion of non-banking financial institutions and micro finance. Participants included representatives from the United Nations, Mercy Corps International, Winrock International, local NGOs, and ACDI/VOCA. KCLF staff were the only speakers at the workshop – which was used as a platform to discuss how to register as a non-banking financial institution and how to work with the Central Bank. This activity is representative of the type of networking and consultation KCLF has done with the local MFI community to raise their awareness of working as a legal micro finance organization. To date, none of the participants have received a license from the Central Bank to provide credit.

In August, the Sakhalin micro credit Foundation approached KCLF to provide consulting services to its newly founded organization. In response, KCLF sent its Senior Trainer to Sakhalin for one week to conduct a series of trainings for their staff including a hands-on session on group formation and conducting several workshops on communication, outreach, and work with clients. The Sakhalin Foundation hopes to begin lending in November and continues to stay in contact with KCLF staff for informal consultation and advice.

Capital Funds Development and Fund Raising

In June, KCLF received final approval from a local commercial bank to take a one-year \$150,000 loan. This would be a dollar-based loan to be used for lending capital, at 24% APR and be repaid in quarterly installments. Although KCLF has not yet accessed this loan it plans to do so in early 2001 to supplement its current working capital and assist in its expansion efforts.

During the quarter, three proposals were written by KCLF to receive new grants for lending capital. The first was an \$850,000 grant proposal to the Eurasia Foundation and Texaco to start a new KCLF branch in Aktua, along the Caspian Sea. This proposal has been approved by the Foundation's Board of Directors and is awaiting Texaco's final approval.

The second proposal was to the Episcopal Diocese of New Hampshire for \$10,000. This proposal was funded and the money from the States has been received and used by KCLF to expand its portfolio to the rural areas outside of Taldykorgan.

A third grant proposal was written to the Japanese Embassy for \$100,000 in lending capital. This proposal was developed and submitted after an Embassy representative visited KCLF and was impressed by the program. A decision is pending from the Embassy.

NGO Trainings

In May, a group of 13 people from Uzbekistan attended KCLF's training on How to Start a Micro Enterprise Program. These were representatives from the UNDP and the Joint Development Associates in Uzbekistan. Both organizations are seeking assistance to design and implement new micro credit activities in Uzbekistan. As such, the trainees used this training opportunity to learn about how KCLF is administratively structured, its lending methodology, and its overall approach to clients.

In June, eight people from Sakhalin Island attended KCLF's training on How to Start a Micro Enterprise Program. Participants included the Director, Deputy Director, Accountant, Marketing Specialist, and four loan officers from a new USAID-funded micro finance organization in the Russian Far East. A very useful exchange of ideas took place during the five-day training and a long-term relationship was developed to provide advice and consultation from the KCLF staff.

Both of these organizations paid \$400 a participant to attend KCLF's training in Taldykorgan. This cost covers all of KCLF's expenses and provides a 20% profit that is used to purchase new training supplies and equipment.

Internal Training Activities

In April, KCLF's Senior Trainer traveled to Shimkent to conduct the internal training course on leadership. This Leadership Skills Development course is given twice a year to new staff to introduce them to the basics of good management and effective leadership. The training also has a session on organizing and running meetings and presentation skills.

In August, the internal training course on delinquency management was held in Taldykorgan and Shimkent. This training is conducted by the Program Director and emphasizes how to address delinquency before it starts through good business assessment skills, building sound client relationships, monitoring client businesses, providing business advice and guidance, and reinforcing the basic program tenants of timely repayments.

General Issues

The 1999 annual audit was completed in April of KCLF's accounting system and lending portfolio. Kazakh Consulting, a well-respected local audit firm, conducted the audit. The audit assessed KCLF's portfolio, evaluated loan loss provisions, checked internal control procedures, and reviewed accounting entries and general accounting practices. No significant findings were cited.

In May, a new Enterprise Agent (EA) incentive system was introduced. This system is based on each EA's outstanding portfolio (i.e., minus portfolio at risk). An additional incentive is given for manufacturing clients. The incentive system also increases efficiencies as it is automatically generated from the MIS. This scheme has worked effectively so far and provides a more clear and transparent for the Enterprise Agents.

In May, the Board of Directors raised an issue about providing more sophisticated technical assistance to clients. Based on this request, a workshop was organized to discuss client needs and how KCLF could address this issue. A decision was taken to design a short business-training course for all new clients. This course was piloted in July and is now being used with all new clients. This is a three-hour course on tracking and managing business expenses and how to estimate profit margins and measure profits. To date, KCLF has trained 500 new clients through this program.

In July, KCLF created a new senior management position to help manage its expansion activities. This Deputy Director position has the responsibilities of managing the rural expansion effort as well as KCLF's international collaboration campaign (including its NGO training program). An extensive executive search was conducted in Taldykorgan to identify appropriate candidates and over forty resumes were received. Of these, five finalists were selected in addition to one internal candidate. The Board of Directors, senior staff, and the ACDI/VOCA representative interviewed finalists. Through this process, KCLF's Senior Credit Inspector was selected to serve as the new Deputy Director.

In September, the Operations Manager was sent to Israel for a three-week business training course. This course was attended by five other MFIs in Kazakhstan as well as representatives from Armenia, Krygystan, Georgia, Ukraine, and Russia. This training introduced concepts regarding business analysis, business planning, leadership, and credit analysis. Based on this training, the Operations Manager provided a one day course to formally share these ideas and discuss how they could be integrated into KCLF's daily work.

FINANCIAL MANAGEMENT

Table 3 provides consolidated numbers for the Taldykorgan and Shimkent offices. These numbers show that KCLF had revenue of over \$30,000 in September and operational expenses of around \$22,000. As such, KCLF is clearly making a profit and currently pays local profit taxes of 30 percent. This table also reveals KCLF's ability to cover the theoretical financial expenses associated with borrowing commercial funds with a 102% Return on Operations.

Table 3
Financial Statement
SEPTEMBER 2000

ACTIVITIES	AMOUNT
Outstanding Portfolio	\$685,935
Number of loans outstanding	3,317
Average loan size	\$235
Portfolio at Risk (more than one day late)	3.1%
Long run loss rate *	1%
INTEREST RATES	AMOUNT
Program Interest Rate	50-70% (depending on loan term)
Inter-Bank Lending Rate	19%
Inflation Rate	17%
CLIENT REVENUES	AMOUNT
Interest Income	\$30,115
Fee Income	\$3,722
Total Client Revenue	\$33,837
NON-FINANCIAL EXPENSES	AMOUNT
Administrative	19,003
Depreciation of Fixed Assets	938
Loan Loss Provision	2,500
<i>Sub-Total</i>	22,441
Cost of Funds	10,825
<i>Total Expenses</i>	33,266
Return on Operations-including the cost of funds	102%

** Long run loss rate is calculated monthly for loans more than 180 days past due*

Table 3 also provides clear evidence that KCLF has been able to keep its expenses low while increasing revenue through client growth. For example, during the reporting period no new administrative staff were hired but client growth was met through increased staff productivity.

During the reporting period, KCLF also institutionalized a new level of financial oversight. This was structured around a six-month comparative assessment of KCLF's financial progress. The Shimkent branch manager was invited to a senior staff meeting in Taldykorgan and a planning session took place to discuss the previous six months achievements and targets for the next six months. Table 4 below summarizes this comparative analysis.

Table 4
KCLF 6-Month Comparative Analysis

CATEGORY	1999 (January – June)	2000 (January – June)
<i>PORTFOLIO GROWTH</i>		
Average Monthly Growth	11.92%	3.27%
6-month growth (in tenge)	62.5%	30%
Amount in Tenge	14 million	15.3 million
<i>CLIENT INFORMATION</i>		
Average Monthly New Client Growth	6.8%	3.2%
Active clients (end of Period)	1,872	3,020
Clients per EA	186	200
Portfolio per EA	\$30,757	\$39,102
<i>DISBURSEMENTS</i>		
Average Monthly Disbursed (tenge)	11.8 million	26.3 million
Average Monthly Disbursed (dollars)	\$110,883	\$185,000
Total Amount Disbursed (tenge)	71.2 million	157.3 million
Total Amount Disbursed	\$660,295	\$1.2 million
Total Number of Loans Disbursed	2,841	3,726
<i>INCOME & EXPENSES</i>		
Average Monthly Income	\$12,313	\$26,383
Total 6-Month Income	\$73,875	\$158,297
Average Monthly Operating Costs	\$12,787	\$11,293
Total 6-Month Operating Costs	76,723	67,757
Return on Operations	96%	234%
<i>PORTFOLIO INDICATORS</i>		
Portfolio at Risk	4.17%	3%
Loan Write offs	\$4,413	\$6,717
Loan Loss Ratio	1.69	2.43
Return on Portfolio	26%	34%
Operating Costs Ratio	27%	14%

This chart summarizes KCLF's key indicators for a six month period and reveals clear profitability and a financially sound operation. Although it is predictable that new client growth would slow over time, overall portfolio growth continues to come from repeat clients (as shown through increasing disbursements). Tenge and dollar comparisons are often made in the chart due to the 60% devaluation in 1999.

Efficiency indicators include KCLF's operating cost ratio, decreasing from 26 percent in 1999 to 14 percent in 2000. This is an important indicator as it represents increasing administrative and management efficiencies during a time of growth. The Enterprise Agents have also increased the total portfolio they manage – with an overall increase of 27 percent.

Table 5 presents KCLF's consolidated balance sheet for Shimkent and Taldykorgan. Currently, KCLF has no debt and a high degree of liquidity to meet demand for November and December disbursements. In addition, KCLF now has slightly over \$40,000 in fixed assets as a result of purchasing a building in Shimkent and a car in Taldykorgan. These will serve as important leverage for future commercial borrowing.

Table 5
Balance Sheet
September 30, 2000

ASSETS	AMOUNT
Cash on Hand and in the Bank	\$45,500
Short-term Investments	0
Loan Loss Provisions	-\$9,720
Outstanding Portfolio	\$685,935
Long-term Investments	0
Fixed Assets (after depreciation)	40,098
Other Assets	0
Total Assets	\$761,813
LIABILITIES	
Client Savings	0
Other Deposits	0
Loans from Central Bank	0
Loans from other Banks	0
Other Short-term Liabilities (accrued taxes)	\$3,564
Other Long-term Liabilities	0
EQUITY	
Paid in Equity (shareholders)	0
Donated Equity	\$433,762
Retained Earnings	\$331,615
Other Capital Accounts	
Total Liabilities and Equity	\$761,813

FUTURE ACTIVITIES

KCLF anticipates receiving approval for the Eurasia Foundation and Texaco supported branch in Aktau during the fourth quarter. Based on this approval, KCLF will begin start-up activities of the new branch in early 2001. This will be a new activity for KCLF as it will utilize a direct funding mechanism between KCLF and the Foundation. (ACDI/VOCA will not administrate the finances for this project.) KCLF plans to launch its community outreach program and identify new staff in January and begin lending by late February, 2001.

KCLF's Taldykorgan office will continue its expansion efforts to the rural areas outside the city. In early 2001, a new office will be established in Ushtobe (40 kilometers from Taldykorgan). Based on market research and interest from the local government, Ushtobe has been identified as the next new market for KCLF's local expansion initiative. This activity will be funded from KCLF's retained earnings and commercial lending.

In the summer of 2001, KCLF will institutionalize its individual lending program. A methodology has already been established and a new loan application form designed for this program. Before commencing, KCLF will send several of its key loan officers to an intensive five-day business assessment course. This course is especially designed for individual lending programs and introduces concepts of business planning and financial modeling at the enterprise level. The first KCLF individual loans will be disbursed by the fall 2001.